

MEMORANDUM

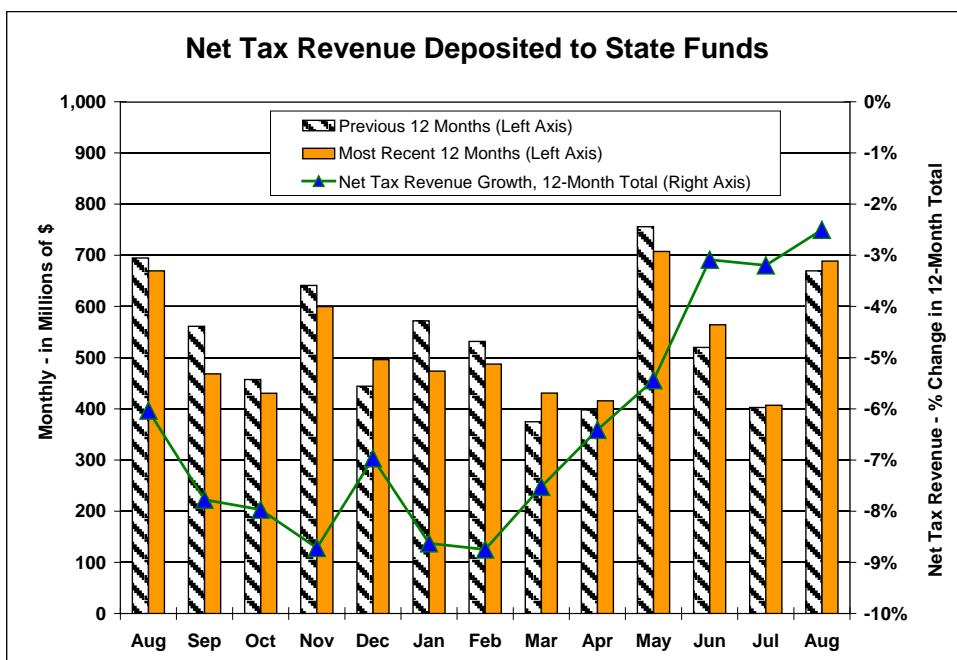
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: September 27, 2010

Twelve-month Total Net Tax Receipts Through August 31, 2010

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending August 2010 with comparisons to the previous twelve months. August 2009 to August 2010 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Month of August Comparison

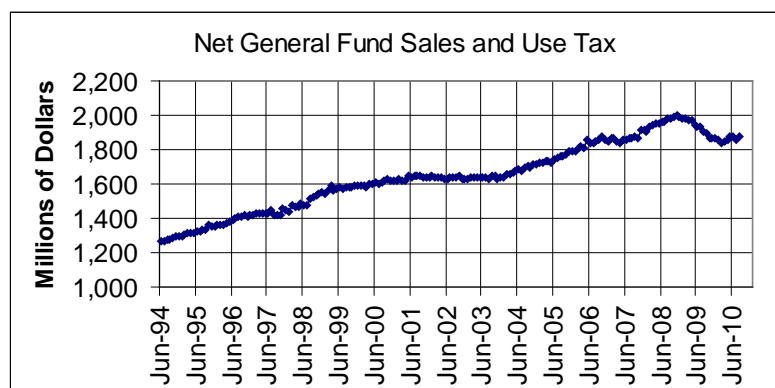
August net tax receipts totaled \$688.6 million, an increase of \$19.4 million (2.9%) compared to August 2009. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$19.6 million, 7.7%) – Gross income tax receipts increased \$21.2 million in August while income tax refunds increased \$1.6 million.
- Sales/Use Tax (positive \$18.0 million, 6.6%)
 - Road Use Tax Fund use tax/fees for new registrations increased \$1.6 million, the fifth straight month of strong growth.
 - Gross General Fund sales/use tax receipts increased \$17.4 million and refunds issued for the month increased \$1.0 million (net increase of \$16.4 million). July 31 fell on a weekend in 2010, significantly increasing August 2010 gross sales tax deposits.
- Corporate Income Tax (negative \$26.9 million, - 193.5%) – Gross corporate income tax receipts decreased \$8.2 million and refunds increased \$18.7 million. Corporate income tax refunds issued in August 2009 were the lowest August since 2001 and the month of September 2009 was the highest amount for September since at least 1992. The large refund increase in August 2010 has more to do with delayed refund issuance last year than any increased issuance this year. Corporate income tax refunds issued in September 2010 should be substantially lower than last September.
- Fuel Tax (positive \$3.9 million, 11.4%) – Gross fuel tax revenue increased \$1.4 million while refunds processed in the month decreased \$2.5 million.
- Cigarette and Tobacco Taxes (negative \$0.5 million, - 2.4%)
- Gambling Tax (negative \$0.6 million, - 2.6%)

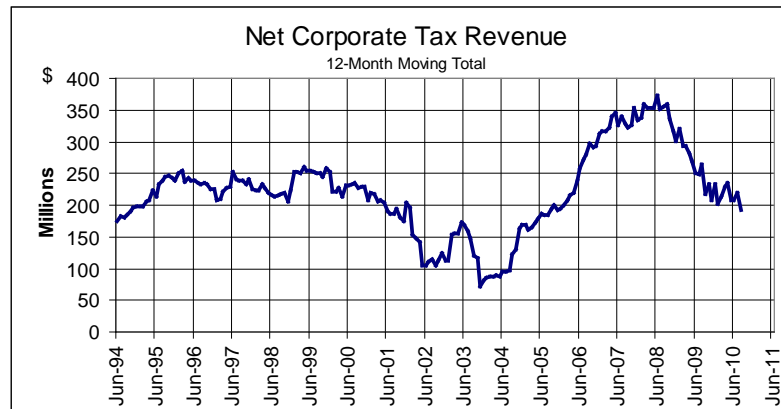
Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending August 2010, net revenue from all taxes deposited to State funds totaled \$6.170 billion, a decrease of \$158.1 million (- 2.5%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$48.8 million, - 1.8%) – The rate of individual income tax receipt growth peaked in April 2008 at 11.8% year-over-year. The annual growth rate bottomed at negative 9.3% in February 2010 and has recovered significantly, but the annual rate of growth remains negative.
- Sales/Use Tax (negative \$26.5 million, - 1.2%) – While the annual growth in sales/use tax revenue is still negative, it represents a significant improvement from the negative 7.4% over the twelve months ending February 2010. At that point, net sales/use tax revenue was 8.4% below its November 2008 peak. The twelve-month total is now 6.2% below that peak. The following graph presents a historical picture of the General Fund portion of sales/use tax.



- Corporate Income Tax (negative \$70.9 million, - 26.9%) – The most recent twelve months produced \$192.5 million in corporate income tax (net of refunds), down \$179.4 million (- 48.2%) from the June 2008 peak. The following graph presents a historical picture of corporate income tax revenue, net of tax refunds.



- Fuel Tax (negative \$2.3 million, - 0.5%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 1.7% while taxable diesel sales decreased 0.2%, the twenty-second consecutive month showing a decline in annual taxable diesel sales. Taxable diesel sales over the most recent 12-month period were 8.8% less than the March 2008 peak sales level.
- Gambling Tax (negative \$13.4 million, - 4.6%) – According to Racing and Gaming Commission statistics, eleven of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending August 2010, and AGR growth for all facilities was negative 2.6% over the period.
- Cigarette and Tobacco Tax (negative \$6.3 million, - 2.7%) – Economic conditions and an increase in the federal cigarette tax are potential contributors to the tax revenue decline.
- Insurance Premium Tax (positive \$17.5 million, 21.8%) – The increase is likely the result of fewer redemptions of tax credit certificates compared to last year.

Tax Spotlight – Corporate Income Tax

Corporate income is taxed under the authority of Iowa Code Chapter 422, Division III. The tax is imposed on the net income of corporations doing business in Iowa or receiving income from property located in Iowa. Taxation of corporate income by the State of Iowa is based on the share of total company sales occurring within Iowa (single factor formula). Corporate income tax rates are applied as follows:

- Six percent on the first \$25,000 of net income
- Eight percent on the next \$75,000
- Ten percent on the next \$150,000
- Twelve percent on amounts above \$250,000

An alternative minimum tax may be imposed at an effective rate of 7.2% if it exceeds the corporation's regular tax liability. Iowa is similar to most states using the federal corporate taxable income of a corporation as the basis for Iowa corporate income tax. Iowa allows for the

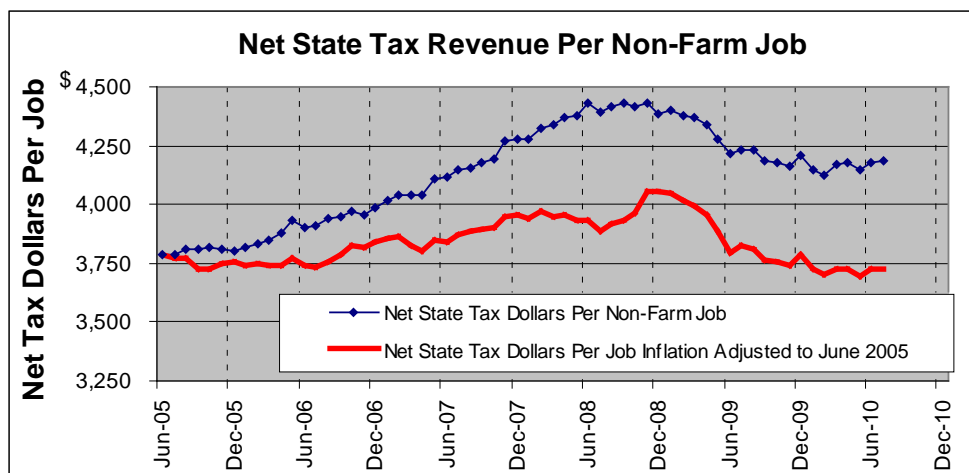
deduction of 50.0% of federal corporate income tax paid prior to calculating State corporate income tax liability.

The Iowa corporate income tax was first imposed in 1934 at a single rate of 2.0% with the passage of HF 1 (Income, Corporation, and Sales Tax Act). The rate remained at 2.0% until 1955 when it was increased to 3.0%, decreased to 2.0% in 1957, increased again to 3.0% in 1959, and increased to 4.0% in 1965. With the passage of HF 702 in 1967, the corporate income tax rate was changed from a single rate to varying rates at different income levels starting at 4.0% on the first \$25,000, 6.0% on the next \$75,000, and 8.0% for amounts above \$100,000. In 1971, HF 654 increased the rates 2.0 percentage points (6.0%, 8.0%, and 10.0%). The current corporate income tax rates and income levels were approved in HF 2171 (Taxation Act of 1982).

Corporate income tax returns are filed by the last day of the fourth month following the end of the corporation's tax year. Cooperatives (as defined by the Internal Revenue Code) are to file a return by the 15th of the ninth month after the end of the cooperative's tax year. Nonprofit corporation returns are due by the 15th of the fifth month after the end of the nonprofit corporation's tax year. Most corporations are required to make estimated tax payments quarterly. All corporate income tax revenues are deposited in the State General Fund.

Tax Revenue and Employment

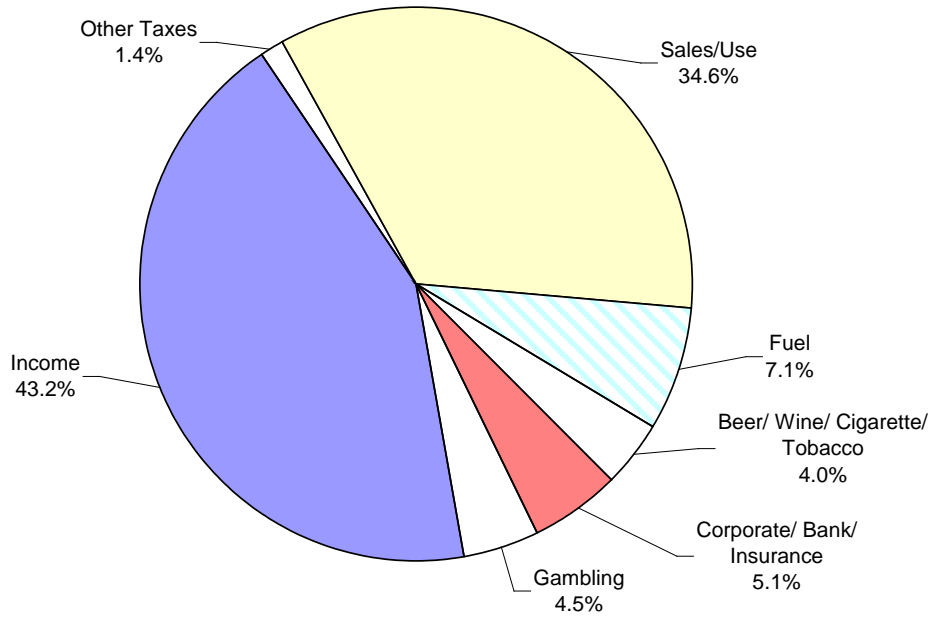
The average reading for Iowa non-farm employment over the 12 months ending July 2010 is 1,470,600, and net State tax receipts over the same twelve months totaled \$6.150 billion, or \$4,182 per non-farm job. This is \$397 (10.5%) higher than the per-job average for the twelve months ending July 2005. Over that same time period, inflation (CPI-U) increased 12.1%. Therefore, tax revenue per job has trailed the rate of inflation since July 2005 by approximately 0.3% per year. The following chart provides a historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending August 2010

Net Revenue = \$6.170 Billion

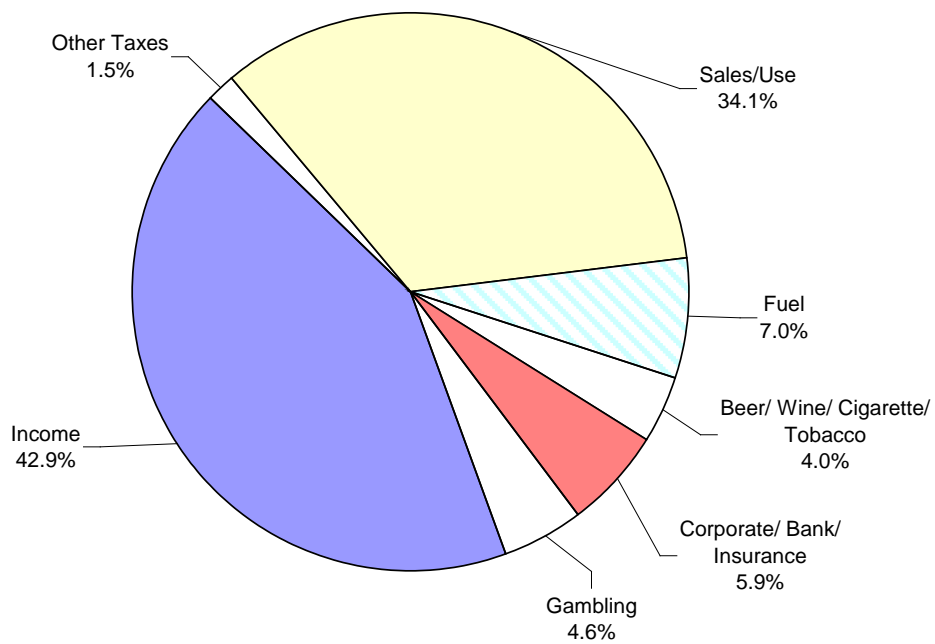
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending August 2009

Net Revenue = \$6.328 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of August 2009	Month of August 2010	August \$ Change	August % Change
Banking	\$ 28.1	\$ 27.2	\$ - 0.9	-3.2%	\$ 0.1	\$ 0.1	\$ 0.0	0.0%
Beer & Wine	21.0	21.1	0.1	0.5%	1.9	1.9	0.0	0.0%
Cigarette & Tobacco	234.7	228.4	- 6.3	-2.7%	21.2	20.7	- 0.5	-2.4%
Corporate Income	263.4	192.5	- 70.9	-26.9%	13.9	- 13.0	- 26.9	-193.5%
Fuel	443.1	440.8	- 2.3	-0.5%	34.3	38.2	3.9	11.4%
Gambling	290.3	276.9	- 13.4	-4.6%	22.8	22.2	- 0.6	-2.6%
Individual Income	2,714.6	2,665.8	- 48.8	-1.8%	254.6	274.2	19.6	7.7%
Inheritance	70.9	66.6	- 4.3	-6.1%	5.7	6.0	0.3	5.3%
Insurance	80.3	97.8	17.5	21.8%	39.0	47.7	8.7	22.3%
Other Taxes	7.1	5.3	- 1.8	-25.4%	2.4	- 0.7	- 3.1	-129.2%
Real Estate Transfer	14.2	13.7	- 0.5	-3.5%	1.1	1.1	0.0	0.0%
Sales/Use	2,160.0	2,133.5	- 26.5	-1.2%	272.2	290.2	18.0	6.6%
Total Net Taxes	\$ 6,327.7	\$ 6,169.6	\$ - 158.1	-2.5%	\$ 669.2	\$ 688.6	\$ 19.4	2.9%
Gross Tax & Refunds								
Gross Tax	\$ 7,575.7	\$ 7,451.0	\$ - 124.7	-1.6%	\$ 724.8	\$ 762.8	\$ 38.0	5.2%
Tax Refunds	\$ - 1,247.8	\$ - 1,281.5	\$ - 33.7	2.7%	\$ - 55.4	\$ - 74.2	\$ - 18.8	33.9%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,381.4	\$ 5,208.6	\$ - 172.8	-3.2%	\$ 609.6	\$ 604.3	\$ - 5.3	-0.9%
Road Use Tax Fund	\$ 697.6	\$ 701.3	\$ 3.7	0.5%	\$ 56.7	\$ 61.4	\$ 4.7	8.3%
Non-GF Gambling	\$ 230.4	\$ 241.7	\$ 11.3	4.9%	\$ 0.9	\$ 22.0	\$ 21.1	2344.4%
Other State Funds	\$ 18.4	\$ 17.9	\$ - 0.5	-2.7%	\$ 2.3	\$ 1.0	\$ - 1.3	-56.5%
Local Option Taxes *	\$ 805.8	\$ 781.9	\$ - 23.9	-3.0%	\$ 68.7	\$ 65.6	\$ - 3.1	-4.5%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited in the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is now referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.